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April 10, 2012

VIA ELECTRONIC FILING

Jocelyn Boyd, Esquire
Chief Clerk/Administrator
Public Service Commission of South Carolina
101 Executive Center Drive, Suite 100
Columbia, South Carolina 29210

RE: South Carolina Electric & Gas Company's Annual Update on Demand Side Management Programs and Petition for an Update to Rate Rider
Docket No.: 2012-55-E

Dear Ms. Boyd:

On January 31, 2012, the South Carolina Electric & Gas Company ("SCE&G" or the "Company") filed its Annual Update on Demand Side Management Programs and Petition for an Update to Rate Rider ("Petition") with the Public Service Commission of South Carolina. Please find attached the South Carolina Office of Regulatory Staff's ("ORS") review of SCE&G's Petition which will alter the billing factors for SCE&G's DSM programs. The Company's requested the rates be effective for bills rendered on and after the first billing cycle of May 2012 through April 30, 2013.

ORS is in general agreement with the March 30, 2012 comments and recommendations filed by the Southern Alliance for Clean Energy and the South Carolina Coastal Conservation League.

Sincerely,

Jeffrey M. Nelson

cc: K. Chad Burgess, Esquire
J. Blanding Holman, IV, Esquire

South Carolina Office of Regulatory Staff's

Review of South Carolina Electric & Gas Company's

2012 Annual Update on

Demand Side Management Programs and

Petition for an Update to Rate Rider

INTRODUCTION AND BACKGROUND

South Carolina Electric & Gas Company ("SCE&G" or the "Company") filed a Request for Approval of its Demand Side Management ("DSM")¹ Plan Including a DSM Rate Rider and Portfolio of Energy Efficiency Programs with the Public Service Commission of South Carolina ("Commission") in Docket No. 2009-261-E on June 30, 2009. Nine (9) DSM programs were proposed by the Company – seven targeting residential customers and two for commercial and industrial customers. Two settlement agreements – the General Settlement Agreement and the Opt-Out Settlement Agreement were approved by the Commission in Order No. 2010-472 dated July 15, 2010. The General Settlement Agreement approved the Company's DSM plan and the Company's methodology for computing net benefits, allowing the Company to recover its costs in providing DSM programs, the Net Lost Revenues and a Shared Savings Incentive of 6% of the net benefits arising from the DSM programs. The Opt-Out Settlement Agreement allows all industrial customers to opt-out of the DSM programs (and not pay the DSM Rate Rider) by notifying the Company in writing that the customer has or will implement alternative DSM programs at its own expense and does not wish to participate in the Company's programs.

On January 31, 2012, the Company filed its Annual Update on DSM Programs and Petition for an Update to Rate Rider ("Filing") with the Commission in Docket No. 2012-55-E. The South Carolina Office of Regulatory Staff ("ORS"), in accordance with the terms of the approved settlement agreements, has conducted a review of SCE&G's Filing. ORS's review includes an evaluation of the three (3) major cost components associated with the Company's DSM programs, which include: Program Costs, Net Lost Revenues and a Shared Savings Incentive. The Company's actual costs were audited for the period of October 1, 2010 through November 30, 2011 ("Review Period"). ORS also reviewed the Company's cost estimates for the period of December 1, 2011 through November 30, 2012 ("Forecast Period"). The Company is requesting the updated DSM Rate Rider be effective for the twelve-month period for bills rendered on and after the first billing cycle of May 2012 and ending with the last billing cycle of April 2013 ("Recovery Period").

¹ SCE&G refers to the programs as DSM programs, and ORS does the same, even though the programs are better described as energy efficiency programs.



DSM PROGRAMS

The Company currently offers nine (9) DSM programs. The programs and the launch dates of each program are as follows:

<u>Residential Programs</u>	
1. Home Energy Reports	04/06/2011
2. Energy Information Display	11/15/2010
3. Home Energy Check-Up ²	10/01/2010
3.a. Home Performance with ENERGY STAR ²	03/01/2011
4. ENERGY STAR Lighting	02/14/2011
5. Heating & Cooling and Water Heating Equipment	03/01/2011
6. Heating & Cooling Efficiency Improvement	03/01/2011
7. ENERGY STAR New Homes	04/01/2011

<u>Commercial and Industrial Programs</u>	
8. Commercial and Industrial – Prescriptive	10/01/2010
9. Commercial and Industrial – Custom	05/01/2011

Under the General Settlement Agreement, SCE&G agreed to develop a low-income program to be implemented in program year two or program year three. The Company states that it is currently reviewing the low-income programs offered by other utilities, determining the criteria by which customers will be designated low-income, and evaluating possible approaches to such a program. The Company plans to complete its development of program details in 2012 and launch its low-income program in 2013, upon Commission approval.

The General Settlement Agreement also requires the Company to expand the initial implementation of the Residential Energy Information Display program to include the small business service class. The Company's initial launch of the Residential Energy

² The "Residential Energy Check-up and Home Performance Audit" program has been divided into two components, the "Home Energy Check-up" and the "Home Performance with ENERGY STAR" for the purposes of this listing.



Information Display program included an offer to nearly 1,000 members of the small business class. Only 44 such customers agreed to participate in the program, and SCE&G has found that only 17 small business class customers have actively utilized the displays. Given the lack of interest shown by small business class customers, the Company has decided to limit the program to residential customers only.

Based on information provided by the Company, the residential programs appear to be performing well overall, with the ENERGY STAR Lighting program and the Home Energy Reports program generating energy savings well above the forecasted savings. Residential ratepayers have responded with interest to both the ENERGY STAR Lighting program and the Home Energy Reports program. The ENERGY STAR Lighting program offers discounts on lighting and lighting fixtures at retail outlets, providing a readily accessible participation path. The Home Energy Reports program has also been well accepted, with actual participation exceeding estimates. However, the Commercial and Industrial programs have not yet met expected energy savings. In particular, the Commercial and Industrial Custom program had only one participant in its initial year. It appears that customers are unwilling to commit to programs in which the incentives are not known beforehand.

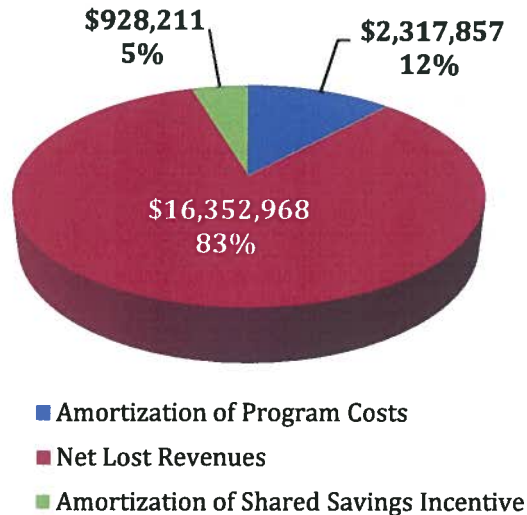
DSM COST EVALUATION

The total cost the Company is seeking to recover in this Filing is \$19,599,036. For this requested amount, the Company projects an energy savings of 209,574,000 kWhs, which equates to 9.35 cents/kWh-saved. SCE&G amortizes its Program Costs over five (5) years – including carrying costs – resulting in a request of \$2,317,857, or 12% of the requested amount. The Company is requesting recovery for Net Loss Revenues of \$16,352,968, which is 83% of the requested amount. SCE&G does not amortize its Net Lost Revenues. Total Net Lost Revenues are to be recouped during the Recovery Period. Finally, SCE&G is requesting recovery of \$928,211, or 5% of the requested amount as a Shared Savings Incentive to implement the DSM programs. SCE&G amortizes this Shared Savings Incentive over five (5) years, without carrying costs.



Requested Cost Recovery

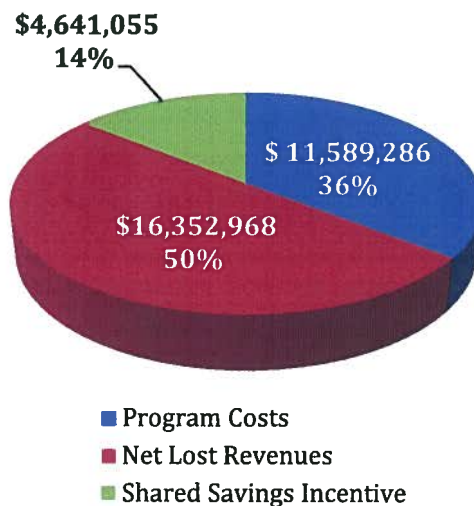
Total: \$19,599,036



The total unamortized cost for SCE&G's Filing is \$32,583,309. This amount includes Program Costs of \$11,589,286, (36% of the total unamortized cost); Net Lost Revenues of \$16,352,968 (50% of the total unamortized cost); and a Shared Savings Incentive amount of \$4,641,055 (14% of the total unamortized cost).

Unamortized Costs

Total: \$32,583,309



A breakdown of the major cost components of this Filing and the development of the billing factors is shown in Exhibit 1. The requested revenues from residential customers are recovered from all residential ratepayers, while the non-residential revenues are recovered solely from those non-residential ratepayers that do not opt-out of the programs.

ADVISORY GROUP

The SCE&G DSM Advisory Group ("Advisory Group")³ continues to meet to discuss the status of each program, including preliminary participation statistics, Evaluation, Measurement and Verification ("EM&V") plans and preliminary EM&V data. During the meetings, SCE&G typically provides a description of proposed program refinements and seeks input from the members of the Advisory Group regarding how these modifications may impact participation from the various sectors.

EVALUATION, MEASUREMENT & VERIFICATION

In Commission Order No. 2011-390, the Company was approved for an updated Rate Rider "subject to true-up in SCE&G's 2012 annual filing." To date, the Company has not received any EM&V reports. Most of the programs were launched in 2011 and the Company concluded that it would not be beneficial to conduct EM&V studies for the period ending November 30, 2011, as the EM&V studies would only cover the start-up phase of the programs. Initial EM&V results are expected for the 2013 filing, and will be utilized to true-up the participation rates, energy and peak demand impacts, net benefits and shared savings incentive at that time.

ESTIMATES USED IN THE FILING

All program avoided energy amounts, avoided capacity amounts, net lost revenues, and shared savings incentives are estimates that were developed using the ICF International ("ICF") DSM Planning Model. Thus, all the dollar amounts in the Filing, with the exception of the program costs in the Review Period, are estimates. These values and dollar amounts are to be trued-up in the 2013 filing based on EM&V results. ORS has reviewed in detail the data and assumptions used in the ICF DSM Planning Model, and tested certain changes in the data and assumptions. ORS finds the ICF DSM Planning Model to have produced reasonable estimates for the SCE&G DSM programs.

³ The Advisory Group was formed in accordance with Order No. 2010-472 and includes one representative each from the industrial sector, small business sector, environmental sector, State Low Income Home Energy Assistance Program ("LIHEAP") and ORS.



FORECASTED RETAIL SALES

The Company utilized its most recent short term sales forecast to compute the DSM Rate Rider in this Filing. This is the same forecast SCE&G used during its 2012 Annual Fuel Filing. As such, ORS is familiar with the methodology used to generate the sales forecast and finds it to be a reasonable approach to establish rates.

ENERGY AND PEAK DEMAND SAVINGS

The Company projects that during the Forecast Period the DSM programs will reduce annual electric usage by 121,626 megawatt-hours and reduce the annual one-hour peak usage by 21 megawatts. These are noteworthy savings, and may provide SCE&G the ability to avoid or defer the construction of a portion of new generating facilities.

OPT-OUTS

In its 2011 filing, the Company reported that as of January 31, 2011, 362 industrial customers – representing 70% of SCE&G’s industrial load – had opted-out of the Company’s DSM programs. In this Filing, the Company reports that as of November 30, 2011 industrial opt-outs of its DSM programs total 379 industrial customers representing approximately 71% of SCE&G’s industrial load. However, the Company reported to ORS that a “small number” of industrial customers that initially opted-out have recently elected to opt-in.

DSM RIDER RATES

The Approved 2011 and Requested 2012 DSM Rider rates are shown in the following table:

DSM Rider Class	Approved 2011 Rate (cents/kWh)	Requested 2012 Rate (cents/kWh)	Increase of 2012 over 2011 Rates (cents/kWh)
Residential	0.044	0.132	0.088
Small General Service	0.085	0.189	0.104
Medium General Service	0.022	0.131	0.109
Large General Service	0.008	0.012	0.004

The requested increase in the DSM Rate Rider for an average residential customer using 1,000 kWh per month will add approximately \$0.88 to the customer’s monthly bill.

CONCLUSION

ORS has no adjustments to SCE&G's Filing and finds that the updated DSM Rate Rider to be developed in accordance with the terms and conditions set forth in Commission Order No. 2010-472 and are based on reasonable estimates of participation in the Company's DSM programs.



SCE&G Revenue Request for Demand Side Management Programs

For the Recovery Period of May 2012 - April 2013

	Residential	Small General Service	Medium General Service	Large General Service	Total
Program Costs:					
Actual Balance of Program Costs as of November 30, 2011	\$ 8,339,617	\$ 1,747,406	\$ 1,199,194	\$ 303,069	\$ 11,589,286
One Year Amortization	\$ 1,667,923	\$ 349,481	\$ 239,839	\$ 60,614	\$ 2,317,857
Lost Revenues for October 2010 - November 2012:					
Cumulative Energy Savings (KWh) through November 30, 2012	93,309,000	62,515,690	42,901,785	10,847,525	209,574,000
Net Lost Revenue Factors (\$/KWh)	\$ 0.08760	\$ 0.08366	\$ 0.05992	\$ 0.03488	
Estimated Net Lost Revenues	\$ 8,173,868	\$ 5,230,063	\$ 2,570,675	\$ 378,362	\$ 16,352,968
Shared Savings Incentive:					
Cumulative Estimated Net Benefits through November 2012	\$ 34,474,857	\$ 23,054,466	\$ 15,821,272	\$ 4,000,338	\$ 77,350,933
6% Shared Savings Incentive	\$ 2,068,491	\$ 1,383,268	\$ 949,276	\$ 240,020	\$ 4,641,055
One Year Amortization	\$ 413,698	\$ 276,654	\$ 189,855	\$ 48,004	\$ 928,211
DSM Rate Rider					
Amortization of Program Costs	\$ 1,667,923	\$ 349,481	\$ 239,839	\$ 60,614	\$ 2,317,857
Net Lost Revenues	\$ 8,173,868	\$ 5,230,063	\$ 2,570,675	\$ 378,362	\$ 16,352,968
Amortization of Shared Savings Incentive	\$ 413,698	\$ 276,654	\$ 189,855	\$ 48,004	\$ 928,211
Total Requested Recovery	\$ 10,255,489	\$ 5,856,198	\$ 3,000,369	\$ 486,980	\$ 19,599,036
Projected Sales (GWh)	7,774.6	3,099.0	2,293.0	4,065.0	17,231.6
DSM Rate Rider (Cents/KWh)	0.132	0.189	0.131	0.012	0.114